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DIRECTORATE OF
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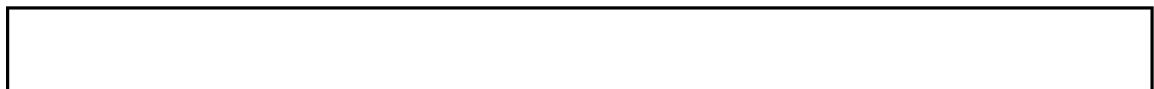


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Cambodia: Government forces continue to meet stiff Communist resistance in their drive to recapture Kirirom.

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[redacted] government troops had recaptured a resort hotel near Kirirom held by the Communists for the past few days. Two government battalions moving along the only road to the town were blocked by enemy elements dug into the surrounding jungle. South Vietnamese and Cambodian air strikes reportedly have caused sizable enemy casualties, but [redacted] government losses also may be high. The military situation was unchanged in other areas of the country.

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Thai Debate Cambodian Involvement

For the first time in recent memory, a foreign policy question--whether Thailand should send troops into Cambodia--has become a matter of public debate in Bangkok. The issue, which has been aired in parliament, was the topic of an unusual panel discussion before 3,000 university students in Bangkok yesterday. Both Foreign Minister Thanat and Deputy Prime Minister Praphat, who were panelists, took the line that Thai troops would be committed to Cambodia only as a last resort. However, their remarks made it clear that they disagree on when that might be. Other panelists, including the editor of an influential Thai daily, flatly opposed sending Thai troops across the border.

The reaction of students to the discussion made it clear that they are opposed to such a deployment. Many of Praphat's statements, particularly his allegations that Communist "documents" captured on the Cambodian border had revealed plans for an invasion of Thailand, were greeted with derision.

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The public display of differences among top Thai leaders on what to do about Cambodia may harden existing divisions within the Thai leadership. The emergence of Cambodia as a major public issue will also make it more difficult to conceal certain Thai activities in support of Cambodia and will serve to limit the government's freedom of action.

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South Korea: The Pak government, to enhance its bargaining position, is orchestrating a sharp reaction to announced US troop reductions.

Now that the issue has become public knowledge, Seoul is taking the line that a firm agreement on modernization of South Korean forces must precede any reductions. As a gesture to reinforce this stand, Prime Minister Chong has threatened that he and his cabinet will resign if negotiations with the US prove unsatisfactory to the Korean people. In addition, the National Assembly is readying a "recommendation" to the government stressing the need to seek prior US commitment to modernization and strengthened assurance of US involvement in case of an attack from the North.

President Pak will be under great pressure to achieve a "victory" in this matter. There is strong bipartisan agreement that any early reduction in US troop strength should be avoided if at all possible, and the opposition stands ready to attack Pak if his bargaining over this matter appears too docile.

South Korea has asked Japan to increase its economic aid to help offset the effects of any US troop reductions. Tokyo has expressed "sympathy" with Seoul's concern, but so far has been noncommittal about increasing the level of aid. In testimony before the Japanese Diet, defense chief Nakasone admitted that US troops in Korea had contributed to Japanese security, but he assured the members that Japan would not assume the US military role in Korea or elsewhere. [REDACTED]

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Warsaw Pact - NATO: A Polish Foreign Ministry official has hinted at some flexibility in last month's Warsaw Pact proposals on European security and force reductions.

Deputy Foreign Minister Willmann's remarks to the US Ambassador on 11 July appear largely aimed at maintaining the momentum of the Pact campaign for a conference on European security by stressing a willingness to be more accommodating to Western views. Willmann spoke directly to the issue of force reductions--a subject of keen interest to NATO--and elaborated on the terse proposals conveyed in the Pact's ministerial declaration of 26 June.

These proposals did not go beyond an ambiguous statement that a reduction of "foreign" forces in Europe might be discussed in a committee to be established at a security conference or in any other forum acceptable to all parties. Willmann, however, suggested that a special group to deal exclusively with force reductions before a security conference be created by a preparatory ambassadorial meeting. He even suggested that the US and USSR might bilaterally reach an agreement on the issue and then refer it to other states for general approval.

Willmann has also taken account of the Western preference for including both indigenous and foreign forces within the scope of negotiations on force reductions. He argued that agreement between the US and the USSR on the reduction of their forces in Europe would be "easier" and thus could provide a basis for negotiations on more difficult subjects, such as the reduction of indigenous forces, the establishment of demilitarized zones, or a nuclear "freeze." The last two suggestions are not a part of current Western thinking on balanced force reductions, but have long been a feature of Polish proposals for regional disarmament.

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Although the Polish official claimed to be expressing his own views, it is highly unlikely that he would range far afield from Moscow on these issues. Warsaw's initiatives have the obvious advantage for Moscow of helping to keep the West interested in bloc proposals for a security conference, while not directly committing the Soviets to discuss subjects--such as balanced force reductions--that they have been reluctant to consider.

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UK: Britain's trade accounts were in the red for the third successive month with a deficit of \$122 million in June.

The deficit, up some \$46 million from the preceding month, was the largest since April 1969. Imports, described by officials as "erratically" high, reached a new record and were the principal contributing factor. Although recent wage increases have caused a substantial growth in average British earnings and consumer spending power, the immediate prospects are for relatively slower growth in imports in the coming months because of the current stagnation of the economy.

By value, exports recovered last month and came to within \$17 million of the April 1970 all-time record, but there has been no real gain in the quantity of exports since mid-1969.

In releasing last month's figures, the Board of Trade took note of reduced sales to Canada and the US, two of the UK's more important markets. [REDACTED]

[REDACTED]

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Italy: Premier-designate Giulio Andreotti faces considerable difficulty in his efforts to reconstitute a center-left coalition.

The four center-left parties disagree particularly on economic policy, trade union demands, and cooperation with the Communists in regional and local governments. Andreotti may have special difficulty in reconciling differences because he was a long-time leader of the right-wing of the Christian Democrats and was a strong opponent of the center-left alignment when it began.

The key issue facing Andreotti is the negotiation of regional and local governments in Tuscany and Umbria. In these two regions the center-left lacks a majority and the Socialists have indicated they will probably support the Communists. This is an effort to avoid the imposition of national administrators, an action that would be unpopular and would probably be followed by early dissolution of the two assemblies and new regional elections.

A Communist was elected president of the Tuscan assembly on 13 July with Socialist support, but the Tuscan executive body apparently has not yet been chosen. The regional assembly in Umbria is scheduled to meet for the first time on 20 July.

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Guatemala: Terrorist activity directed against partisans of President Arana has broken a month-long lull.

In the last week, two members of Arana's right wing National Liberation Movement have been assassinated, including the mayor of Zacapa. [REDACTED]

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Both left and right extremists had been lying low since early June, after a series of retaliatory murders by a right-wing group provoked a public outcry against political violence. [REDACTED]

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President Arana, who won office with the promise to end political violence in Guatemala, is yet to be challenged by a major terrorist act. He will, however, be under strong pressure to take action against the terrorists if a prominent figure becomes a victim of the violence. [REDACTED]

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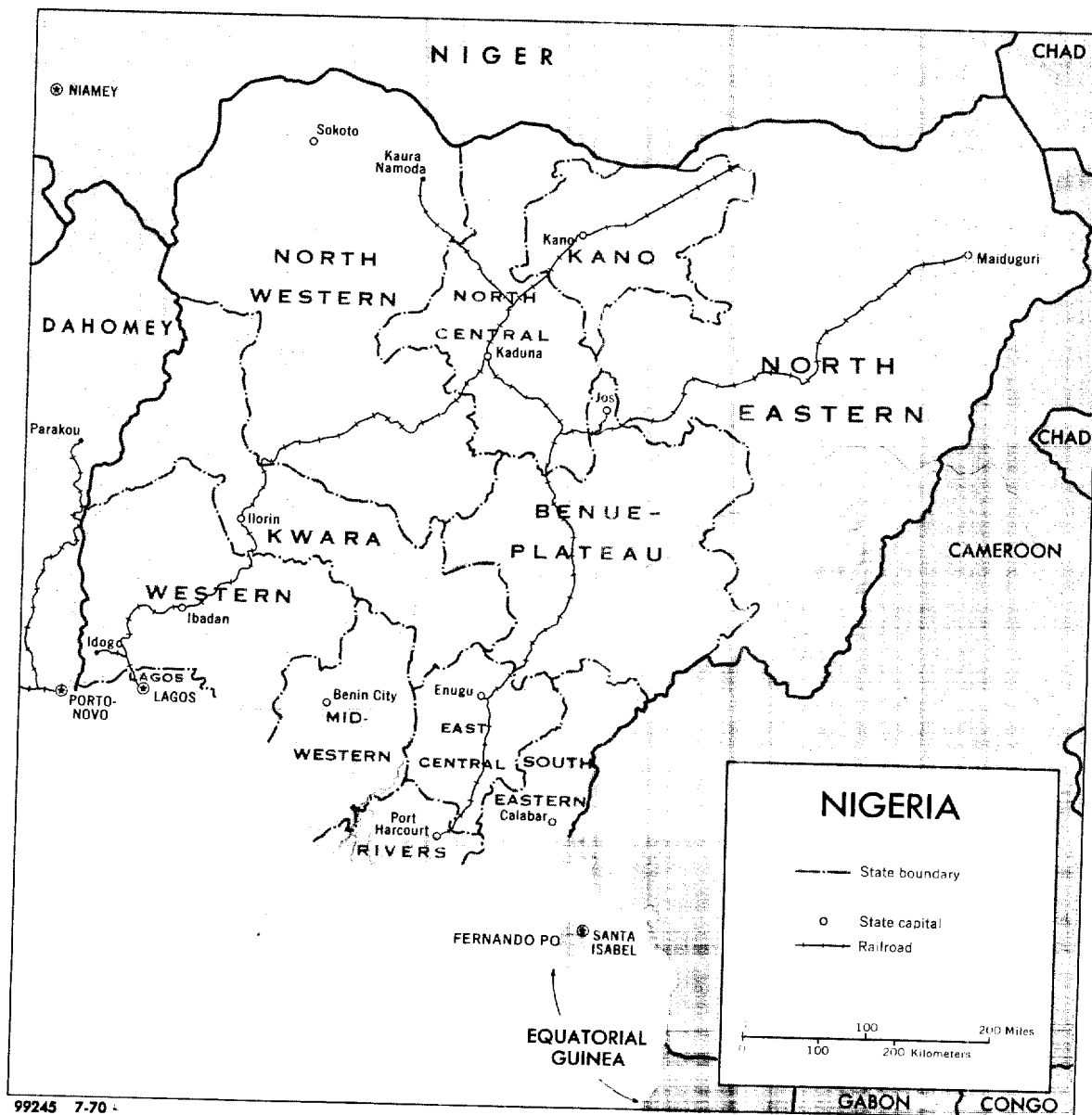
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Nigeria: Some progress has been made in rebuilding the economy in the former secessionist territory.

The extreme shortage of currency has about ended as the government nears completion of its plan to put \$15 million in federal currency into circulation in the former enemy area. Over 75 percent of the depositors in the Ibo East Central State who turned in Biafran money last March have received \$56 each in Nigerian currency. Frozen bank assets, however, still limit the over-all money supply. A few factories have opened in the east, and the rail line from Port Harcourt to the north should be open by the end of July.

Unemployment remains a major problem; some 42,000 civil servants and professionals of Ibo origin are still unable to find work within the East Central State. Military governors in Kano and the North West states have been conducting a recruitment campaign to encourage Ibo teachers, doctors, and civil servants to take jobs in the north, but so far only a few have responded.
(Map)

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Israel: Israel's major shipyard has begun a four-year program to produce fast patrol boats, according to the US naval attaché in Tel Aviv.

Tight security has been imposed and Israeli Naval officers will not disclose the type or size of boat to be built. Although Israel is capable of building 200-foot aluminum-hulled patrol boats, it will have to purchase engines and some radar and electronic components. From an initial go-ahead decision, some 18 months would be required to prepare for full production. Present yard facilities would permit production of two such boats a month.

Israel's navy has 12 French-built Saar-class patrol boats. These boats are now being fitted out with guns and Israeli-developed and produced Gabriel anti-ship missiles. Four boats are operational and are patrolling the Mediterranean. To patrol the Red Sea and the Gulf of Aqaba, the Israelis are relying on 12 31-foot pleasure craft converted for naval use. As more of the Saar boats become operational, some probably will be assigned to patrol these waters.

In addition to the navy's own requirement for more patrol boats, the Israelis may plan to export some of the new boats. They are eager to sell Gabriel missiles, and several countries, including Greece and Iran, have been offered the system. No sales have yet been made, but if the Israelis could offer a complete package that would include the boat as well as the missiles, the marketability of the Gabriel would improve considerably.

[REDACTED]

[REDACTED]

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NOTES



Turkey: Although the Istanbul area remains generally quiet, martial law--due to expire at mid-night tonight--almost certainly will be extended for another two months. [REDACTED]



Meanwhile, Prime Minister Demirel's political future remains uncertain; his parliamentary majority continues to slip, and his government could fall on any contentious issue around which the opposition could unite. Demirel probably will seek to hang on until the summer recess, which may still be several weeks away. If he is successful, he may be able to patch things together before parliament reconvenes in November. [REDACTED]

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